

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-01 PRS-01 /082 W

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R 102221Z DEC 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 1889

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POUCHED INFO ALL CONGENS IN CANADA

E.O. 11652: N/A

TAGS: EFIN, ECON, CA

SUBJ: FEDERAL TAX CUT NEXT YEAR?

BEGIN UNCLASSIFIED

1. IN ANSWERING QUESTIONS IN PARLIAMENT ON DEC. 9 REGARDING  
FEDERAL GOVERNMENT'S DECISION TO DROP REVENUE GUARANTEE  
PROGRAM FOR PROVINCES, FINMIN MACDONALD ADDED TO SPECULATION THAT  
GOC WOULD STIMULATE ECONOMY EARLY NEXT YEAR THROUGH INCOME  
TAX CUT OR EASING OF FISCAL RESTRAINTS. MACDONALD TOLD HOUSE  
THAT GOC WOULD LIKE TO REDUCE CURRENT FEDERAL DEFICIT  
OF C\$5 BILLION BUT WOULD ALSO "LIKE TO PRESERVE FOR THE  
FEDERAL GOVERNMENT THE FREEDOM OF ACTION TO ENGAGE PERHAPS  
IN A TAX REDUCTION OR OTHER FISCAL CHANGES IN THE BUDGET  
NEXT TIME."

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2. COMMENT: MACDONALD MAY BE REQUIRED TO MOVE ON STIMULATION  
OF THE ECONOMY FASTER THAN HE WISHES OR, WHEN HE DOES  
MOVE, RELAX FISCAL RESTRAINTS ON A BROADER SCALE THAN  
HE WOULD LIKE. SOME PROVINCIAL OFFICIALS ARE ALREADY  
TALKING ABOUT INCREASED PROVINCIAL TAXES TO REPLACE  
EXPECTED REVENUE LOSS FROM GUARANTEE PROGRAM, AND, IN FACT  
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SASKATCHEWAN PREMIER ALLAN BLAKENEY ANNOUNCED ON

DECEMBER 9 THAT PROVINCIAL INCOME TAXES WOULD  
RISE BY 3 PERCENT FOR UPPER-INCOME GROUPS. THUS,  
MACDONALD MAY BE FORCED BY PROVINCIAL ACTIONS TO TAKE  
COUNTER MEASURES TO STIMULATE ECONOMY WHILE STILL PROMOTING  
GOC ANTI-INFLATION PROGRAM.

3. ACCORDING RECENT NEWSPAPER ACCOUNTS DROP IN  
FOREIGN EXCHANGE VALUE OF CANADIAN DOLLAR ALREADY  
BEING TRANSLATED INTO HIGHER IMPORTED FOOD PRICES,  
AND CLOTHING IMPORTERS ARE WARNING CANADIAN CUSTOMERS  
THAT RECENTLY IMPOSED CLOTHING QUOTAS ON IMPORTS WILL  
RESULT IN MUCH HIGHER PRICES.

4. IF CPI, BECAUSE OF HIGHER FOOD AND CLOTHING COSTS,  
SHOWS SIGNIFICANT INCREASE IN MONTHS AHEAD, AND OTHER  
PROVINCES LIKE SASKATCHEWAN RAISE PROVINCIAL INCOME  
TAXES, MACDONALD WILL BE CAUGHT IN ECONOMIC BIND. HE  
WOULD RISK EXACERBATING INFLATION BY FISCAL STIMULATION  
BUT WOULD ALSO RISK RECESSIONARY TENDENCY IF HE  
TOOK NO STEPS TO COUNTER INCREASED TAXATION BY PROVINCES.  
ENDERS

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